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Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: EFIN, AR
SUBJECT: ARGENTINA'S EXTERNAL DEBT -- YEAR-END 1977

1. WE HAVE RECEIVED FROM CENTRAL BANK ON CONFIDENTIAL BASIS REPORT ON ARGENTINA'S YEAR-END 1977 EXTERNAL DEBT. HIGHLIGHTS ARE AS FOLLOWS (ALL FIGURES IN MILLIONS OF DOLLARS):

A. EXTERNAL DEBT (INCLUDING UNDISBURSED) TOTAL 11,761, OF WHICH 8,127 IS PUBLIC SECTOR DEBT AND 3,635 IS PRIVATE SECTOR.

B. EXTERNAL DEBT (INCLUDING UNDISBURSED) WITH MATURITY OF OVER 180 DAYS TOTALED 9,960, OF WHICH 7,012 IS PUBLIC SECTOR DEBT AND 3,635 IS PRIVATE SECTOR. PRINCIPAL CREDITOR COUNTRIES AND AMOUNTS ARE AS FOLLOWS: U.S. - 3,194; WEST GERMANY - 1,201; UK - 789; JAPAN - 567; ITAL - 490; SPAIN - 459; SWITZERLAND - 371; FRANCE - 338; USSR - 236; CANADA - 209; INTERNATIONAL ORGANIZATIONS AND OTHER COUNTREIS - 2,106.

C. EXTERNAL DEBT (DISBURSED ONLY) OF OVER 180 DAYS TOTALED 8,087, OF WHICH 4,930 IS PUBLIC SECTOR DEBT AND 3,157 IS PRIVATE SECTOR.
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2. COMMENT: ALTHOUGH 75 PERCENT OF THE MATURITIES ARE CONCENTRATED IN THE 1978-1982 PERIOD, DEBT SERVICING SHOULD NOT PRESENT ANY PROBLEMS TO ARGENTINA. DURING THE PAST TWO YEARS, ARGENTINA'S EXTERNAL SECTOR HAS PRODUCED SUBSTANTIAL BALANCE OF TRADE SURPLUSES AND NET CAPITAL INFLOWS, SWELLING RESERVES

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TO RECORD LEVELS. AT THE END OF JUNE 1978, THE
CENTRAL BANK'S RESERVES STOOD AT $5.5 BILLION --
THE EQUIVALENT OF 16 MONTHS OF IMPORTS AND A SUFFICIENTLY
LARGE ENOUGH CUSHION SO THAT THE GOVERNMENT HAS ADOPTED,
AS PART OF ITS STABILIZATION PROGRAM, EXCHANGE RATE AND
OTHER FINANCIAL MEASURES TO DISCOURAGE ANY FURTHER RISE
IN RESERVES. THE CENTRAL BANK WILL TAKE ADVANTAGE OF ITS
STRONG FINANCIAL POSITION TO REPAY IN 1978, TWO YEARS AHEAD
OF SCHEDULE, $1.3 BILLION IN COMPENSATORY FINANCING OBTAINED
IN 1976 FROM THE IMF AND U.S. EUROPEAN, CANADIAN, AND JAPANESE
COMMERCIAL BANKS. AT THE SAME TIME, ACCORDING TO A
CENTRAL BANK SOURCE, THE GOA EXPECTS TO NEGOTIATE IN
1978 OVER $700 MILLION IN LONG TERM CREDITS FROM
FOREIGN COMMERCIAL BANKS AND ON VERY FAVORABLE TERMS:
TERM OF AT LEAST TEN YEARS AND A GRACE PERIOD OF FOUR
YEARS ($200 MILLION FOR AEROLINEAS TO PURCHASE BOEINGS
IS AN EXAMPLE OF SUCH A CREDIT). AS A RESULT,
THE AVERAGE MATURITY OF ARGENTINA'S EXTERNAL DEBT
SHOULD BE LENGTHENED BY THE END OF 1978.

3. THE U.S. IS THE PRINCIPAL SOURCE OF BILATERAL
CREDIT FOR ARGENTINA AND ITSIMPORTANCE HAS INCREASED
DURING THE PAST TWO YEARS. TOTAL U.S. EXPOSURE IN
CREDITS WITH MATURITIES OF OVER 180 DAYS INCREASED
FROM $2,274 MILLION AT YEAR-END 1975 TO $3,194 MILLION
AT YEAR-END 1977 -- UP 40.5 PERCENT. DESPITE THIS
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PREDOMINANCE, AND THE RATHER EMOTIONAL ARGENTINE
REACTION TO THE EXIMBANK'S REJECTION OF A LETTER OF
INTEREST TO ALLIS CHALMERS ON HUMAN RIGHTS GROUNDS,
IT WOULD SEEM THAT THE U.S. GOVERNMENT HAS BEEN A
RATHER MINIMAL SOURCE OF DIRECT FINANCING FOR ARGENTINA
AND THAT THEREFORE ITS LEVERAGE IN DENYING OFFICIAL
CREDITS IS RATHER LIMITED. ACCORDING TO THE ARGENTINE
STATISTICS, ONLY $336 MILLION OF 10.5 PERCENT OF TOTAL
U.S. EXPOSURE AT YEAR-END 1977 WAS OFFICIAL IN NATURE
(FIGURE WOULD BE SOMEWHAT HIGHER IF IT INCLUDED PRIVATE
CREDITS WITH USG GUARANTEES). U.S. PRIVATE BANKS AND
OTHER CREDITORS THEREFORE ARE FAR MORE IMPORTANT TO
ARGENTINA AS SOURCES OF FINANCING AND, GIVEN ARGENTINA'S
STRONG EXTERNAL SECTOR AND IMPROVED CREDITWORTHINESS,
HAVE BEEN MOUNTING AN AGGRESSIVE CAMPAIGN DURING THE
PAST YEAR TO INCREASE THEIR EXPOSURE IN ARGENTINA.
MAJOR U.S. BANKS NOT ESTABLISHED IN ARGENTINA HAVE
TAKEN STEPS TO OPEN REPRESENTATIVE OFFICES AND A
FEW EVEN TO OPEN BRANCHES. THE SMALLER U.S.
REGIONAL BANKS HAVE BEEN SENDING REPRESENTATIVES
TO ARGENTINA IN DROVES TO PEDDLE CREDIT AND TO
ESTABLISH NEW CORRESPONDENT RELATIONSHIPS.

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4. POST IS POUCHING CENTRAL BANK REPORT TO DEPARTMENT.
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